

*A project of the College of Arts and Sciences and the Department of Economics*

### SEPTEMBER 2006

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#### Analysis

The University of Oregon Index of Economic Indicators™ edged forward 0.1 percent in September to 107.0 (1996=100), the first increase since March. Four indicators, Oregon nonfarm payrolls indicators, help-wanted advertising in *The Oregonian*, inflation-adjusted new manufacturing orders, and U.S. consumer confidence, improved. Three indicators, Oregon residential building permits, the Oregon weight-distance tax, and the interest rate spread, deteriorated. Oregon initial unemployment claims was essentially unchanged.

Data on the Oregon labor market was generally positive in September. Employers added 3,900 workers to nonfarm payrolls in August, capping off a solid quarter of job growth. During the third quarter 2006, payrolls rose by an average of 5,100 per month, a modest decrease from the average of 6,100 for the same quarter last year. The level of initial unemployment claims was virtually unchanged, holding at a level consistent with continue employment gains. Help wanted advertising in *The Oregonian* increased, partially offsetting an August decline.

Remaining economic indicators were mixed. Oregon residential building permits fell sharp-

ly, down 14 percent from August and 30 percent compared to September 2005 as Oregon continues to feel the impact of the national housing slowdown. The depth and speed of the housing slowdown has prompted some commentators to issue recession warnings. There is a risk that consumer spending will slow sharply as the ability to extract mortgage equity is impeded by falling home prices. Similarly, the yield curve inverted further as the interest rate on longer dated securities fell sharply relative to the Federal Reserve's interest rate target. Such inversions are viewed as leading indicators of recessions. In contrast, new orders for core durable goods strengthened a sign of continued business investment activity that is inconsistent with recessions. And consumer confidence rebounded on the back of lower gasoline prices; confidence remains at a level

consistent with continued growth in consumer spending.

The mixed nature of the data is consistent with an economy that is transitioning to a lower rate of economic activity. Still, the index indicates continued economic growth in Oregon in the near term (three to six months). Compared to six months ago, the UO Index fell 1.0 percent (annualized), while the six-month diffusion index, a measure of the proportion of components that are rising stood at 25 (in other words, more than half the components deteriorated). As a general rule, a decline in the index of greater than 2 percent over six months (annualized), coupled with a decline in more than half of its components, signals that a recession is likely imminent.

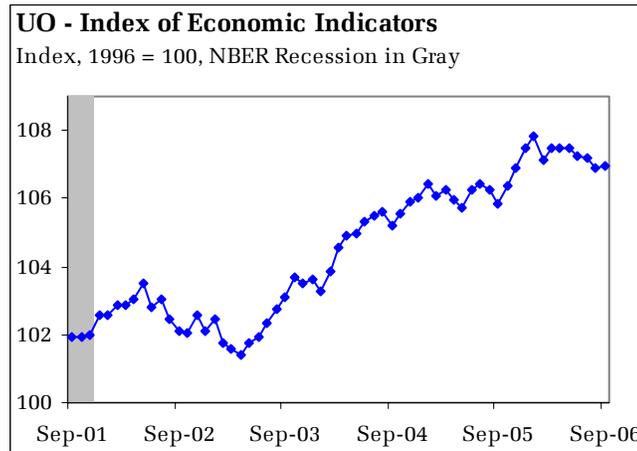


Table 1: Summary Measures

	2006					
	Apr.	May	Jun.	Jul.	Aug.	Sep.
University of Oregon Index of Economic Indicators™, 1996=100	107.5	107.5	107.2	107.2	106.9	107.0
Percentage Change	0.0	0.0	-0.2	0.0	-0.3	0.1
Diffusion Index	56.3	43.8	43.8	50.0	31.3	50.0
6-Month Percentage Change, Annualized	2.0	1.1	-0.4	-1.2	-0.4	-1.0
6-Month Diffusion Index	50.0	50.0	37.5	37.5	37.5	25.0



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**Methodology and Notes**

The methodology employed in creating the University of Oregon Index of Economic Indicators is identical to that used by The Conference Board, an independent, not-for-profit research organization, in the computation of the U.S. Leading Index. For information, see [www.globalindicators.org](http://www.globalindicators.org).

The UO Index is constructed to have the properties of a leading indicator. As a general rule, a decline in the index of greater than 2 percent over six months, coupled with a decline in more than half of its components, signals that a recession is likely imminent. The 2 percent rule—which has since changed to 3.5 percent due to index revisions—was originally employed by The Conference Board for the U.S. Leading Indicators, and it appears appropriate for the UO Index.

Using the rule, the index signaled an impending recession in January 2001; the National Bureau of Economic Research (NBER) dates the national recession from March to November 2001. The index did signal the so-called “jobless recovery” that followed the 2001 recession, but did not falsely predict a double-dip recession. No other recessions were signaled during the period for which data are available (beginning February 1995).

The general rule, however, should be used judiciously. The available data encompasses only one recession, a very small sample from which to draw generalities. Moreover, no single variable is capable of decisively determining the state of the business cycle. Consequently, the UO Index of Economic Indicators is best considered as another tool in assessing the economy.

Sources: The Conference Board, Oregon Department of Transportation, Oregon Employment Department, Federal Reserve Bank of St. Louis, Bureau of Labor Statistics, Census Bureau, and the author’s calculations.

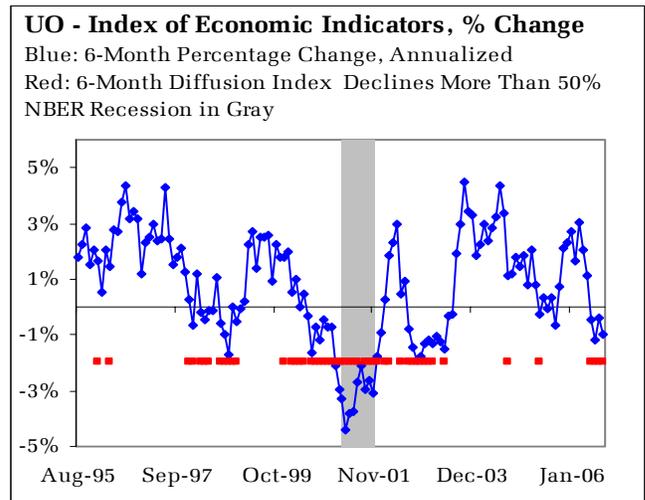
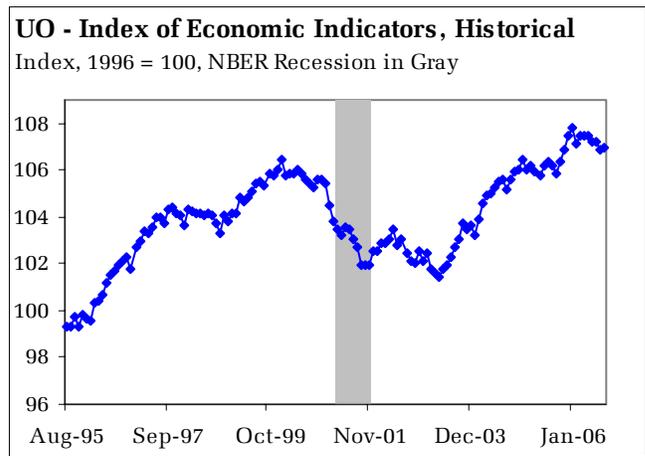


Table 2: Index Components

	2006					
	Apr.	May	Jun.	Jul.	Aug.	Sep.
Oregon Initial Unemployment Claims, SA*	5,675	6,041	5,936	6,268	6,551	6,579
Oregon Residential Building Permits, SA	2,432	2,788	2,727	1,923	2,038	1,758
The Oregonian Help-Wanted Ads, SA	23,978	21,617	20,155	20,857	18,799	19,448
Oregon Weight Distance Tax, \$ Thousands, SA	17,056	23,563	19,575	21,537	20,937	18,931
Oregon Total Nonfarm Payrolls, Thousands, SA	1703.5	1711.8	1708.1	1715.3	1719.6	1723.5
Univ. of Michigan U.S. Consumer Confidence	87.4	79.1	84.9	84.7	82	85.4
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Billions, SA	42,454	42,869	43,154	43,492	44,107	44,728
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	0.2	0.17	-0.12	-0.13	-0.37	-0.53

\* SA—seasonally adjusted

The goal of the University of Oregon Index of Economic Indicators™ is to create a summary measure of various data that pertain to the Oregon economy.